



NextWealth: Creating a Next Wave in India's IT and BPO Industry

Published : September 06, 2011 in [India Knowledge@Wharton](#)

During the early days of the Indian information technology outsourcing industry, Sridhar Mitta's biggest challenge was convincing American companies that India was a viable destination to send their work. Mitta was with Wipro, at the time a fledging IT division of a vegetable oil company. He was, in fact, the very first employee of the company's IT business and later went on to become its chief technology officer and president of the global research and development business. During Mitta's visits to potential customers in the U.S. in the early and mid-1980s, he would invariably be asked two questions: one, where is India? And two, how are Indians so fluent in English?

There were other concerns, including worries about infrastructure, connectivity, cultural differences and quality measures. "But the basic premise of outsourcing to India -- a wage differential of 1:10 and abundant talent -- was so strong that the rest fell into place," Mitta recalls. The global delivery model pioneered by Indian IT companies completely shifted the paradigm. Instead of Indian engineers having to go to client locations, the work moved to where the engineers were located -- in India.

Mitta, now 62, is looking to spearhead another wave in the industry with NextWealth Entrepreneurs, a social entrepreneurship organization which he co-founded in September 2009 with three other industry veterans -- Mythily Ramesh, Anand Talwai and S.R. Gopalan (all former colleagues from Wipro). Mitta, who is managing director, describes NextWealth as an IT services company with a "distributed delivery model." He explains that this model envisages a large number of small delivery centers located in non-metros, i.e., in tier 2, 3 and 4 cities and in rural India. Mitta believes that the distributed delivery model can address the biggest challenge currently facing the Indian IT and business processes outsourcing (BPO) industry: a limited supply of workers, which is leading to high attrition and wage escalation and, in turn, threatening India's position as an outsourcing destination. Countries like Mexico, the Philippines, and Ireland are fast emerging as alternative locations, especially for low-end BPO work.

"The Indian IT industry is like a mainframe model. Companies set up huge campuses that can hold thousands of employees. These [campuses] are few in numbers and located only in the metros and big cities," Mitta says. "The companies then recruit people from across the country and bring [workers] to these centers. This has worked well so far. But taking this mainframe model to smaller cities [in order to tap resources] is not feasible. What we need is the Internet model, a large number of small centers with around 250 to 500 people each."

"We believe that the distributed delivery model will be the new paradigm," adds NextWealth CEO Ramesh.

Widening the Resource Pool

The duo's logic is simple. Some states like Maharashtra, Andhra Pradesh, Tamil Nadu and Karnataka have as many as 500 to 600 engineering colleges and nearly 60% of these schools are located in non-metros. These institutions churn out thousands of graduates every year. Typically, of the students who complete their studies, only 25% come to the metros and larger cities for jobs. The rest, especially women, remain in their hometowns taking whatever jobs are available -- positions that are very often not commensurate with their skills and qualifications. Setting up delivery centers in multiple small locations serves a dual purpose. For companies, it means access to a large, diversified and qualified talent pool at lower wages (because of the lower cost of living in these locations), resulting in a 30 to 40% cost



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advantage. For employees, it offers strong job opportunities closer to home.

The big IT and BPO companies have in fact been talking about moving to the hinterland for the past few years, but their forays have been limited. The firms don't have the required mindset for setting up multiple small centers, nor the policies or management bandwidth. Meanwhile, there are some "rural BPOs" that have opened across the country in recent years. But these are small outfits with around 20 to 100 people. Most of them offer basic data entry work, digitization services, data conversion, content creation and transcription. They also offer voice-based contact center services in local languages to cater to end customers in the domestic market. While some of these rural BPOs are for-profit enterprises, others are supported by NGOs, local governments or are part of the social responsibility initiatives of corporations.

NextWealth has a different approach. "Ours is an entrepreneur-led model. Each of our centers will be owned and run by a local entrepreneur," says Ramesh. She goes on to explain: NextWealth identifies locations in non-metros based on the infrastructure, availability of skilled resources and the cost of living. It also identifies local entrepreneurs with a strong emotional connection to the place, the capacity to fund the venture and the ability to run operations. The firm then mentors and guides these entrepreneurs in setting up the center.

NextWealth owns a 26% stake in each of the centers and is the customer-facing entity. The firm attracts the business and passes it on to the different centers depending on a location's skillsets, and guarantees the centers good profitability, but NextWealth alone is accountable to the customers for all the deliverables. All aspects of transitioning the process from the clients to the centers, managing quality metrics, productivity, certification and branding are NextWealth's responsibility. It is currently in the process of developing a hosted platform on the Internet that will bring in complete standardization across all the centers and also give the firm direct and easy visibility across all operations in each center. "As far as the customer is concerned, we are a seamless entity," Mitta notes.

NextWealth currently has four centers, two near Salem in Tamil Nadu and one each in Hubli (Karnataka) and Chittoor (Andhra Pradesh). A fifth center is expected to be operational soon in Erode (Tamil Nadu). These centers combined employ around 550 people. Mitta's target is to have around 30 to 40 centers with an employee base of 10,000 by 2014. He then wants to scale to 100,000 in the next few years. The NextWealth team has already identified other locations and entrepreneurs who are waiting to sign on. Those partners will come onboard once customers sign up. Currently, NextWealth has a portfolio of six clients.

Why did NextWealth opt for the entrepreneur-led model instead of setting up its own centers? "We believe that [the entrepreneur-led model] is the only way to build management depth locally, scale the business fast and create a significant impact," according to Mitta. Adds Ramesh: "We want to combine the social cause of an NGO and the rigor of the corporate world, and create social uplift through entrepreneurship." The name NextWealth reflects the team's belief that wealth creation in the next paradigm will be in the small towns.

For an entrepreneur, it costs around \$US200,000 to set up a NextWealth center. Each center is expected to break even in around 18 months with a team size of 250. Thereafter, an entrepreneur can expect profits of around 15 to 17% of the total revenues. This is well in line with the profits of the average IT (20%) and BPO (15%) firm. NextWealth, which is self-funded, keeps a percentage of the revenues of the business that the firm generates for its own operational expenses and business development. The Small Industries Development Bank of India (SIDBI) and Exim Bank -- both public sector organizations -- has cleared NextWealth as a "bankable" project and are open to funding the entrepreneurs.

Creating New Opportunities

K. Ganesh, a serial entrepreneur and CEO and founder of online tutoring firm TutorVista and also the first customer of NextWealth, calls Mitta's approach "breakthrough and revolutionary." "The NextWealth model combines a sound business proposition with a great social cause," he says. "Unlike the typical rural BPO, the NextWealth model is highly scalable. It is a great example of transforming from customized software to a platform." Ganesh adds, however, that he was willing to outsource to NextWealth only because of the track record and the personal credibility of Mitta and his team. "It is an untried and untested model and we would not have been willing to take a risk with anyone else."

TutorVista started with a pilot of 25 tutors at the NextWealth center in Mallasamudrum near Salem and soon ramped up operations to 175. That number is down to 50 during summer vacation, but is expected to pick up once the academic session begins. "Ours is a 100% remote model [all tutors on the TutorVista payroll work from their homes]. With NextWealth, we can experiment with a center-based approach. Being in a more controlled environment, it enables us to introduce new services more easily. It also allows us to scale up or down depending on our business requirements," Ganesh notes.

Partners, too, are bullish. "It took my father 20 years to employ 30 people. I have done it in six months. There is a tremendous sense of satisfaction both at a family and professional level," according to Chetan Velkur, 29, who owns the Chittoor center. His team works in the area of digital photobook designs. He expects this center to grow to 250 people by the year end and is also looking at setting up other locations.

Velkur, a mechanical engineer from Bangalore and a postgraduate in thermal and fluid sciences from the University of Kentucky, worked with GE Energy in Bangalore for a couple of years before deciding to return to his hometown to start the entrepreneurial venture. "My biggest challenge has been to overcome the small town mentality of the team and get them to go the extra mile. But the biggest learning has been that if we educate and train our people well, they are at par with the best professionals anywhere in the world," he says.

Mallikarjun Hurallikopi, who owns the center in Hubli, is looking to the NextWealth team to help him scale his business. An engineer from Dharwad in Karnataka, Hurallikopi and his brother set up a BPO center nine years ago in their hometown. The center provides health care services for clients in the U.S. Although their center was established, it only employed 100 people. Hurallikopi now expects to add 200 more this year with business flowing through NextWealth. "Being part of the NextWealth network gives us better access to large projects and companies," says Hurallikopi, who also runs a business school in Hubli. "It has also taught us how to run operations better."

NextWealth offers both IT and BPO services. With the model's cost advantage and skill sets, Mitta says the firm can not only carry out work that is already happening in the industry today, but also create new markets -- especially in the areas of internet data monetization and social media marketing. "A lot of business that is not viable at the current cost structure can be viable at the new cost structure," he points out.

An Untested Model

[Arogyaswami J Paulraj](#), a professor emeritus of electrical engineering at Stanford University, says Mitta and his team are on the right track. "Offering employment opportunities to segments of population that have been locked out so far will make India more competitive in an increasingly tougher world market for IT services." The social impact, Paulraj adds, will be to "improve wealth distribution and reduce migration to larger cities."

In the long run, ventures like NextWealth "strengthen non-urban economies and reduce migration to over-crowded cities," according to [Anam K. Govardhan](#), an English professor at the Western Connecticut State University. But Govardhan cautions that NextWealth could face challenges in "getting clients, training local talent to solve specific problems and ensuring cost effectiveness."

Apart from the operational issues of executing work from remote locations and ensuring quality and performance standards at par with the best in the industry, while at the same time keeping costs low, in due course the NextWealth network, too, will have exactly the same issues of talent retention that the bigger players are facing today. "NextWealth proposes to employ hundreds of engineers from rural regions. In such a case, it will need career and succession planning. Growth and development issues could crop up in the future," Kumar Parakala, head of IT Advisory at KPMG India, points out. "Additionally, not all engineers would want to stay with their humble family backgrounds. They may be interested in exploring the quality of life that the cities offer, or look out for further study options."

More immediately, there is the challenge of convincing potential customers to sign on to the model. NextWealth is targeting three sets of customers: large Indian IT-BPO companies, mature start-ups and captive centers of both Indian and multinational firms. "Ironically, the worst believers are the CEOs of large Indian IT-BPO companies, who themselves have made a living out of outsourcing," Mitta says.

Recalling his early days in the industry Mitta adds: "It's like a re-run of an old movie, except that instead of convincing American companies, we now have to convince the Indian ones." But he is convinced that that, just as in the past, the current proposition is too compelling to be ignored.

Saloni Malhotra, CEO of DesiCrew Solutions, a rural BPO, shares her experience. "We tried the partner model a couple of years ago, but it failed to take off. Customers were wary of outsourcing their work in the first place. They were even more uncomfortable at the thought of it being further outsourced by us. But maybe we tried it too early in the game." Malhotra points out that with every additional layer in the chain, the cost goes up and the margins are not large enough to be shared in a purely commercial enterprise. But NextWealth has a feasible and highly scalable business model if it can crack the challenge of customer acquisition, according to Malhotra. "The investment is coming from different sources, so it is more easily replicable," she says. DesiCrew itself has been slow to scale. Incubated by IIT Chennai in 2005 and spun off as an independent entity in 2007, it currently has five company-owned centers and an employee pool of 250.

S. Vaitheeswaran, vice president and unit head at Infosys BPO, which has a team size of 18,500, says that a blended model of having company-owned delivery centers and outsourcing to other service providers in remote locations can work well for large companies. "One could look at doing the higher-quality work in the metros, and the rest out of these smaller centers," he says. "In a transaction-based pricing model, the cost per transaction to the client will become significantly more attractive without any erosion of value."

Infosys BPO has already made a beginning by partnering with two rural BPOs, DesiCrew and Rural Shores, for around 200 to 300 people. The company outsources not only work of its external clients, but also its own internal processes in the areas of finance and human resources. Vaitheeswaran expects the numbers to increase but cautions, "in terms of scale, we need to wait and see how it all finally pans out. The economics and business model is still untested." Echoes KPMG's Parakala: "Rural BPOs are still at a nascent stage. It's too early to predict their future and no particular model can be called the best one until its success is measured on a timeline scale."

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